

**MARION WATER DEPARTMENT
A COMPONENT UNIT OF THE
CITY OF MARION, IOWA**

June 30, 2004

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MARION WATER DEPARTMENT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregory O. Hapgood	Chairperson	November 1, 2004
Robert A. Anderson	Trustee	November 1, 2008
Mary Ann McComas	Trustee	November 1, 2006
David O. Kalkwarf	Administrator	Indefinite

Independent Auditor's Report

To the Board of Trustees
Marion Water Department
Marion, Iowa

We have audited the accompanying financial statements of the business activities and each major fund information of the Marion Water Department, a component unit of the City of Marion, as of and for the year ended June 30, 2004, which collectively comprise the Marion Water Department's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Marion Water Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business activities of each major fund of the Marion Water Department at June 30, 2004, and the results of its operations and the cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2004 on our consideration of the Marion Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements.

Cedar Rapids, Iowa
September 2, 2004

Management's Discussion and Analysis

As management of the Marion, Iowa Water Department, we offer readers of the Department's financial statements this narrative and analysis of the financial statements of the Marion Water Department for the fiscal year ended June 30, 2004, in comparison with the prior fiscal year's results. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A).

Financial Highlights

The assets of the City of Marion Water Department exceeded its liabilities at the close of June 30, 2004, by \$9.4 million (net assets). Of this amount, \$1.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The Department's net assets increased by \$949,617.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$1.4 million, or 100 percent of the total General Fund expenditures.

The Water Department has no debt obligations, either existing July 1, 2003, or issued during the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Marion Water Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) statements of business-type activities of the Water Enterprise Fund, a component unit of the City of Marion, 2) fund financial statements, and 3) notes to the financial statements.

This report is made in compliance with Government Accounting Standards Board Statement No. 34. Besides the Management's Discussion and Analysis, the report consists of enterprise-wide statements, fund financial statements, notes to the financial statements, combining schedules of other business-type funds, and supplementary information. The major business-type activities include activities of the Water Enterprise Utility. Other business-type funds include activities of the Meter Deposit Fund and the Medical Benefits Fund.

Enterprise-wide Financial Statements

The enterprise-wide financial statements include the Statement of Net Assets. The Statement of Net Assets presents information on the Water Department's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating. The government activities reflect capital assets including infrastructure and long-term liabilities and business activities reflect capital assets and long-term liabilities.

The Statement of Activities is also included in the enterprise-wide financial statements. The focus of the Statement of Activities is to show how the entity's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected charges for services and earned but unused vacation leave). The enterprise-wide statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 11-13 of this report.

Statement of Net Assets for the Fiscal year Ended June 30, 2004

This section discusses and analyzes significant differences between this and the prior fiscal year. A condensed version of the Statement of Net Assets as of June 30, 2004 follows:

	<u>Business-type Activities</u>	
	<u>2004</u>	<u>2003</u>
Cash and investments	\$1,711,812	\$1,357,511
Other assets	768,692	766,309
Capital assets	<u>7,504,546</u>	<u>6,877,816</u>
Total assets	<u><u>\$9,985,050</u></u>	<u><u>\$9,001,636</u></u>
Current liabilities	\$ 575,420	\$ 540,899
Noncurrent liabilities	<u>45,773</u>	<u>43,215</u>
Total liabilities	<u><u>\$ 621,193</u></u>	<u><u>\$ 584,114</u></u>
Net assets:		
Invested in capital assets, net of debt	\$7,504,545	\$6,877,816
Restricted	150,000	150,000
Unrestricted	<u>1,709,312</u>	<u>1,386,424</u>
Total net assets	<u><u>\$9,363,857</u></u>	<u><u>\$8,414,240</u></u>

Business-type Activities

Net assets increased mainly due to capital contributions of new subdivisions, an increase of \$553,584 for the fiscal year 2004, and charges for services exceeding operating expenses by \$396,033.

Statement of Activities for the Fiscal Year Ended June 30, 2004

This section discusses and analyzes significant differences in fiscal year activities. A summary version of the Statement of Activities follows:

	<u>Business-type Activities</u>	
	<u>2004</u>	<u>2003</u>
Revenues:		
Charges for services	\$4,823,884	\$4,576,665
Capital grants and contributions	553,584	671,569
Investment income	30,016	41,564
Miscellaneous revenue	<u>275,223</u>	<u>203,207</u>
Total revenues	<u><u>5,682,707</u></u>	<u><u>5,493,005</u></u>

	<u>Business-type Activities</u>	
	<u>2004</u>	<u>2003</u>
Expenses:		
Operating expense	<u>1,567,403</u>	<u>1,516,795</u>
Intergovernmental transfer	<u>3,165,687</u>	<u>2,979,053</u>
Changes in net assets	949,617	997,156
Beginning net assets	<u>8,414,240</u>	<u>7,144,083</u>
Ending net assets	<u>\$9,363,857</u>	<u>\$8,414,240</u>

Business-type Activities

Charges for services is the primary revenue source for business-type activities and are comprised of water sales and charges for other services and commodities. Investment income accounts for 1.6 percent of total revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City of Marion, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are not included within the Water Department financial statements, but are included within the City of Marion statements. Those statements may be viewed or obtained through the Office of the Finance Director, City Hall, 1100 8th Avenue, Marion, Iowa 52302.

Proprietary Funds

The Marion Water Department is a type of Proprietary Fund, an Enterprise Fund. The Water Enterprise Fund is used to report functions of this component unit of the City of Marion, and functions are shown as business-type activities in the financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Water Department's programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found within the Other Business-type Funds of the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-35 of this report.

Budgetary Highlights - General Fund

The Water Department had one budget amendment during the fiscal year. The amendment increased anticipated revenues by \$1,140 and anticipated expenditures by \$100,000 to allow for a land purchase commitment.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the Water Department had invested \$7,504,546 (net of depreciation) in capital assets as are reflected in the following table. These investments include land, buildings, improvements, machinery and equipment, water storage tanks, and underground facilities (including fire hydrants).

	<u>Business-type Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 265,094	\$ 240,094
Building, wells, and towers	1,481,802	1,481,802
Meters	322,642	322,642
Machinery and equipment	390,319	255,175
Distribution system	6,712,403	6,051,882
Construction in progress	179,300	163,481
Accumulated depreciation	<u>(1,847,014)</u>	<u>(1,637,260)</u>
Total	<u>\$7,504,546</u>	<u>\$6,877,816</u>

The following table reconciles the change in capital assets. The amount for business-type activities is \$230,790, which represents a 3.5 percent increase. Detail of this summary is presented in Note 4 on pages 32 and 33.

	<u>Business-type Activities</u>	
	<u>2004</u>	<u>2003</u>
Beginning balance	\$6,877,816	\$6,647,026
Additions	657,184	257,376
Retirements - net of depreciation	-	-
Depreciation	(209,754)	(190,067)
Construction in progress	<u>179,300</u>	<u>163,481</u>
Ending Balance	<u>\$7,504,546</u>	<u>\$6,877,816</u>

Business-type Activities

Contributions due to subdivision development totaled \$553,584, with construction in progress of \$179,300.

Debt Administration

The Marion Water Department had no outstanding debt and no debt issues pending during the fiscal year.

Economic Factors

The unemployment rate for Linn County is currently at 4.5 percent, which is slightly higher than the previous year of 4.2 percent. Although this rate has risen, it is not necessarily a bad sign due to the fact the labor force was so tight previously it was sometimes difficult to find qualified workers.

The average hourly manufacturing wage rate is calculated on a calendar year, thus, the 2003 information is not available. For 2001, the average hourly manufacturing wage rate for Linn County was \$19.19. For 2002, that rate was \$19.53.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2001 (April 1, 2000 to March 31, 2001), retail sales for Marion were \$237.9 million and \$2,623.4 million for Linn County. For fiscal year 2002, retail sales were \$253.6 million for Marion and \$2,721.1 million for Linn County.

The total value of building permits for fiscal year 2003 was approximately \$77.4 million. This compares with the fiscal year 2002 amount of \$38.1 million. This increase of \$39.3 million is mostly due to construction of a new school, two large industrial facilities and several large multi-family residential projects.

Next Year's Budget and Rates

The Marion Water Board of Trustees has established a FY 2004-05 budget without any adjustments in water rates. The Board of Trustees, under provisions of Section 388 of the Code of Iowa, establishes and approves the budget for the Water Department. As a component unit of the City of Marion, the Department's budget is filed for record as part of the City of Marion's budget.

Financial Information Contact

The Water Department's financial statements are designed to present users (citizens, customers and prospective customers) with a general overview of the Department's finances and to demonstrate the Department's accountability. If you have questions about the report or need additional financial information, please contact the Office of the Water Administrator, City Hall, 1100 8th Avenue, Marion, Iowa 52302.

FINANCIAL STATEMENTS

MARION WATER DEPARTMENT

Statement of Net Assets

June 30, 2004

	<u>Business-type Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 1,711,812
Receivables:	
Accounts receivable	254,851
Unbilled revenue	438,898
Inventories	58,550
Prepaid insurance	<u>16,393</u>
Total current assets	<u>2,480,504</u>
Noncurrent assets:	
Land	265,094
Buildings, wells and towers	1,481,802
Vehicles	287,968
Computers	9,267
Equipment	93,084
Pipes and hydrants	6,712,403
Meters	<u>322,642</u>
	9,172,260
Less accumulated depreciation	<u>(1,847,014)</u>
	7,325,246
Construction in progress	<u>179,300</u>
Total noncurrent assets	<u>7,504,546</u>
TOTAL ASSETS	<u><u>\$ 9,985,050</u></u>

	<u>Business-type Activities</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 78,810
Accrued payroll	18,698
Other accrued expenses	3,886
Due to other governments	<u>474,026</u>
Total current liabilities	<u>575,420</u>
Noncurrent liabilities:	
Due within one year:	
Compensated absences	22,483
Due after one year:	
Compensated absences	<u>23,290</u>
Total noncurrent liabilities	<u>45,773</u>
Total liabilities	<u><u>\$ 621,193</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 7,504,545
Restricted for:	
Future construction	150,000
Unreserved	<u>1,709,312</u>
TOTAL NET ASSETS	<u><u>\$ 9,363,857</u></u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT

Statement of Activities

For the Year Ended June 30, 2004

	<u>Business-type Activities</u>
Operating revenues:	
Charges for services	\$ 4,823,884
Miscellaneous	<u>275,223</u>
Total operating revenue	<u>5,099,107</u>
Operating expense:	
Personal services	596,206
Services and commodities	559,150
Depreciation	209,754
Other	<u>202,293</u>
Total operating expense	<u>1,567,403</u>
Operating income	<u>3,531,704</u>
Nonoperating revenue (expense):	
Intergovernmental	(3,165,687)
Investment income	<u>30,016</u>
Total nonoperating revenue (expense)	<u>(3,135,671)</u>
Income before contributions and transfers	396,033
Capital contributions	553,584
Transfers in	97,218
Transfers out	<u>(97,218)</u>
Change in net assets	949,617
Beginning net assets	<u>8,414,240</u>
Ending net assets	<u><u>\$ 9,363,857</u></u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT

Balance Sheet

June 30, 2004

	<u>Water Fund</u>	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Meter Deposits</u>
Assets:				
Current assets:				
Cash and investments	\$1,526,820	\$ 10,352	\$ 5,304	\$ 68,957
Receivables:				
Accounts receivable	70,221	119,980	64,650	-
Unbilled revenue	149,502	195,139	94,257	-
Inventories	58,550	-	-	-
Prepaid insurance	<u>16,393</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>1,821,486</u>	<u>325,471</u>	<u>164,211</u>	<u>68,957</u>
Noncurrent assets:				
Land	265,094	-	-	-
Buildings, wells and towers	1,481,802	-	-	-
Vehicles	287,968	-	-	-
Computers	9,267	-	-	-
Equipment	93,084	-	-	-
Pipes and hydrants	6,712,403	-	-	-
Meters	<u>322,642</u>	<u>-</u>	<u>-</u>	<u>-</u>
	9,172,260	-	-	-
Less accumulated depreciation	<u>(1,847,014)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	7,325,246	-	-	-
Construction in progress	<u>179,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>7,504,546</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$9,326,032</u></u>	<u><u>\$ 325,471</u></u>	<u><u>\$ 164,211</u></u>	<u><u>\$ 68,957</u></u>

<u>Medical Benefits</u>	<u>Total</u>
\$ 100,379	\$1,711,812
-	254,851
-	438,898
-	58,550
-	16,393
<u>100,379</u>	<u>2,480,504</u>
-	265,094
-	1,481,802
-	287,968
-	9,267
-	93,084
-	6,712,403
-	322,642
-	9,172,260
-	(1,847,014)
-	7,325,246
-	179,300
-	7,504,546
<u>\$ 100,379</u>	<u>\$9,985,050</u>

(continued)

MARION WATER DEPARTMENT

Balance Sheet

June 30, 2004

	<u>Water Fund</u>	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Meter Deposits</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 73,012	\$ -	\$ -	\$ -
Accrued payroll	18,698	-	-	-
Other accrued expenses	3,886	-	-	-
Due to other governments	<u>-</u>	<u>315,119</u>	<u>158,907</u>	<u>-</u>
Total current liabilities	<u>95,596</u>	<u>315,119</u>	<u>158,907</u>	<u>-</u>
Noncurrent liabilities:				
Due within one year:				
Compensated absences	22,483	-	-	-
Due after one year:				
Compensated absences	<u>23,290</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>45,773</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>141,369</u>	<u>315,119</u>	<u>158,907</u>	<u>-</u>
Fund Balance:				
Invested in capital assets, net of related debt	7,504,545	-	-	-
Restricted for:				
Future construction	150,000	-	-	-
Unreserved _____	<u>1,530,118</u>	<u>10,352</u>	<u>5,304</u>	<u>68,957</u>
Total fund balance	<u>9,184,663</u>	<u>10,352</u>	<u>5,304</u>	<u>68,957</u>
Total liabilities and fund balances	<u><u>\$9,326,032</u></u>	<u><u>\$ 325,471</u></u>	<u><u>\$ 164,211</u></u>	<u><u>\$ 68,957</u></u>

<u>Medical Benefits</u>	<u>Total</u>
\$ 5,798	\$ 78,810
-	18,698
-	3,886
-	<u>474,026</u>
<u>5,798</u>	<u>575,420</u>
-	22,483
-	<u>23,290</u>
-	<u>45,773</u>
<u>5,798</u>	<u>621,193</u>
-	7,504,545
-	150,000
<u>94,581</u>	<u>1,719,312</u>
<u>94,581</u>	<u>9,363,857</u>
<u><u>\$ 100,379</u></u>	<u><u>\$9,985,050</u></u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2004

	<u>Water Fund</u>	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Meter Deposits</u>
Operating revenues:				
Charges for services	\$1,670,080	\$2,186,298	\$ 967,506	\$ -
Miscellaneous	<u>249,421</u>	<u>-</u>	<u>-</u>	<u>25,802</u>
Total operating revenues	<u>1,919,501</u>	<u>2,186,298</u>	<u>967,506</u>	<u>25,802</u>
Operating expense:				
Personal services	596,206	-	-	-
Services and commodities	453,398	-	-	-
Depreciation	209,754	-	-	-
Other	<u>177,022</u>	<u>-</u>	<u>-</u>	<u>25,271</u>
Total operating expense	<u>1,436,380</u>	<u>-</u>	<u>-</u>	<u>25,271</u>
Operating income (loss)	483,121	2,186,298	967,506	531
Nonoperating revenue (expense):				
Intergovernmental	-	(2,193,597)	(972,090)	-
Investment income	<u>30,016</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>30,016</u>	<u>(2,193,597)</u>	<u>(972,090)</u>	<u>-</u>
Income (loss) before contributions and transfers	513,137	(7,299)	(4,584)	531
Capital contributions	553,584	-	-	-
Transfers in	-	-	-	-
Transfers out	<u>(97,218)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	969,503	(7,299)	(4,584)	531
Beginning fund balance	<u>8,215,160</u>	<u>17,651</u>	<u>9,888</u>	<u>68,426</u>
Ending fund balance	<u>\$9,184,663</u>	<u>\$ 10,352</u>	<u>\$ 5,304</u>	<u>\$ 68,957</u>

<u>Medical Benefits</u>	<u>Total</u>
\$ -	\$4,823,884
-	<u>275,223</u>
-	<u>5,099,107</u>
-	596,206
105,752	559,150
-	209,754
-	<u>202,293</u>
<u>105,752</u>	<u>1,567,403</u>
(105,752)	3,531,704
-	(3,165,687)
-	<u>30,016</u>
-	<u>(3,135,671)</u>
(105,752)	396,033
-	553,584
97,218	97,218
-	<u>(97,218)</u>
(8,534)	949,617
<u>103,115</u>	<u>8,414,240</u>
<u>\$ 94,581</u>	<u>\$9,363,857</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT

Statement of Cash Flows

June 30, 2004

	<u>Water Fund</u>	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Meter Deposits</u>
Cash flows from operating activities:				
Cash received from users	\$1,922,864	\$2,186,298	\$ 967,506	\$ 25,802
Cash paid to employees	(690,242)	-	-	-
Cash paid to suppliers	<u>(510,849)</u>	<u>-</u>	<u>-</u>	<u>(25,271)</u>
Net cash flows from operating activities	<u>721,773</u>	<u>2,186,298</u>	<u>967,506</u>	<u>531</u>
Cash flows from non-capital financing activities:				
Intergovernmental	-	(2,193,597)	(972,090)	-
Operating transfers in (out)	<u>(97,218)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash flows from non-capital financing activities	<u>(97,218)</u>	<u>(2,193,597)</u>	<u>(972,090)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	<u>(292,428)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Purchase of investments	(50,000)	-	-	-
Interest from investments	24,199	-	-	-
Rent from house	<u>13,798</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash flows from investing activities	<u>(12,003)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	320,124	(7,299)	(4,584)	531
Cash and cash equivalents, July 1, 2003	<u>942,150</u>	<u>17,651</u>	<u>9,888</u>	<u>31,426</u>
Cash and cash equivalents, June 30, 2004	<u><u>\$1,262,274</u></u>	<u><u>\$ 10,352</u></u>	<u><u>\$ 5,304</u></u>	<u><u>\$ 31,957</u></u>

<u>Medical Benefits</u>	<u>Total</u>
\$ -	\$5,102,470
-	(690,242)
<u>(99,954)</u>	<u>(636,074)</u>
 <u>(99,954)</u>	 <u>3,776,154</u>
-	(3,165,687)
<u>97,218</u>	<u>-</u>
 <u>97,218</u>	 <u>(3,165,687)</u>
 <u>-</u>	 <u>(292,428)</u>
-	(50,000)
-	24,199
<u>-</u>	<u>13,798</u>
 <u>-</u>	 <u>(12,003)</u>
(2,736)	306,036
<u>103,115</u>	<u>1,104,230</u>
<u>\$ 100,379</u>	<u>\$1,410,266</u>

(continued)

MARION WATER DEPARTMENT

Statement of Cash Flows

June 30, 2004

	<u>Water Fund</u>	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Meter Deposits</u>
Operating income (loss)	\$ 483,121	\$2,186,298	\$ 967,506	\$ 531
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	209,754	-	-	-
Change in assets and liabilities:				
Accounts receivable	3,363	(403)	(9,896)	-
Prepays	(597)	-	-	-
Inventories	5,148	-	-	-
Accounts payable	19,397	-	-	-
Accrued expenses	1,587	-	-	-
Due to primary government	<u>-</u>	<u>403</u>	<u>9,896</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 721,773</u>	<u>\$2,186,298</u>	<u>\$ 967,506</u>	<u>\$ 531</u>
Schedule of noncash capital and related financing activities:				
Acquisition of capital assets through contributions	553,584	-	-	-

<u>Medical Benefits</u>	<u>Total</u>
\$ (105,752)	\$3,531,704
-	209,754
-	6,936
-	(597)
-	5,148
5,798	25,195
-	1,587
<u>-</u>	<u>10,299</u>
<u>\$ (99,954)</u>	<u>\$3,776,154</u>

-	553,584
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These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT
Water Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance -
Budget to Actual (Cash Basis)

For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$1,605,500	\$1,605,500	\$1,676,709	\$ 71,209
Miscellaneous	<u>136,800</u>	<u>136,800</u>	<u>279,441</u>	<u>142,641</u>
Total receipts	<u>1,742,300</u>	<u>1,742,300</u>	<u>1,956,150</u>	<u>213,850</u>
Expenditures:				
Business activities:				
Water	<u>1,743,440</u>	<u>1,743,440</u>	<u>1,482,394</u>	<u>261,046</u>
Excess (deficiency) of revenues over (under) expenditures	(1,140)	(1,140)	473,756	474,896
Other financing uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>(97,218)</u>	<u>(97,218)</u>
Net change in fund balances	(1,140)	(1,140)	376,538	377,678
Beginning fund balance	<u>8,044,603</u>	<u>8,044,603</u>	<u>8,044,603</u>	<u>-</u>
Ending fund balance	<u><u>\$8,043,463</u></u>	<u><u>\$8,043,463</u></u>	<u><u>\$8,421,141</u></u>	<u><u>\$ 377,678</u></u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT**Meter Deposits Fund****Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget to Actual (Cash Basis)****For the Year Ended June 30, 2004**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
Miscellaneous	\$ -	\$ -	\$ 25,572	\$ 25,572
Expenditures:				
Business activities:				
Water	-	-	25,271	(25,271)
Excess of revenues over expenditures	-	-	301	301
Beginning fund balance	68,527	68,527	68,527	-
Ending fund balance	<u>\$ 68,527</u>	<u>\$ 68,527</u>	<u>\$ 68,828</u>	<u>\$ 301</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

MARION WATER DEPARTMENT

Medical Benefits Fund
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget to Actual (Cash Basis)

For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Expenditures:				
Business activities:				
Water	\$ -	\$ -	\$ 99,954	\$ (99,954)
Excess of revenues over expenditures	-	-	(99,954)	(99,954)
Other financing sources:				
Transfers in _____	-	-	97,218	97,218
Net change in fund balance	-	-	(2,736)	(2,736)
Beginning fund balance	98,220	98,220	98,220	-
Ending fund balance	<u>\$ 98,220</u>	<u>\$ 98,220</u>	<u>\$ 95,484</u>	<u>\$ (2,736)</u>

These financial statements should be read only in connection

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Marion Water Department is a municipal utility that is a political subdivision and component unit of the City of Marion, Iowa, located in Linn County. The financial statements include all funds of the Department. The Department is governed by a board of trustees appointed by the City of Marion, Iowa, City Council and is managed by an administrator. The component unit provides water service to the citizens of Marion, Iowa.

A. Reporting Entity

For financial reporting purposes, the Marion Water Department has included all funds, organizations, agencies, boards, commissions and authorities. The component unit has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Department. The component unit has no component units.

B. Enterprise-wide and Fund Financial Statements

The enterprise unit-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each financial section of the basic financial statements and are detailed in the supplemental information.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The component unit-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the enterprise fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

MARION WATER DEPARTMENT**Notes to Financial Statements****June 30, 2004****(1) Summary of Significant Accounting Policies (continued)****C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The Marion Water Department reports the following major enterprise funds:

The Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

The Sewer Rental Fund - The Sewer Rental Fund bills, collects and remits sewer fees to the primary government.

The Solid Waste Fund - The Solid Waste Fund bills, collects and remits solid waste fees to the primary government.

Other enterprise funds account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges, or where the component unit has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The component unit has two funds classified as major funds by management and they are as follows: Meter Deposits and Medical Benefits.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The component unit has elected to follow subsequent private-sector guidance.

Transactions among component unit funds that would be treated as revenues and expenditures or expenses if they involved organizations external to component unit government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of enterprise funds are user fees and charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The component unit maintains its financial records on the cash basis. The financial statements of the component unit are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Use of estimates in preparing financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses and other changes in net assets during the reporting period. Actual results could vary from those estimates.

E. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most component unit funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., buildings, wells, towers, pipes and hydrants which are immovable and of value only to the component unit), are reported in the business-type activities column in the component unit-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the component unit as assets with initial, individual costs in excess of \$5,000.

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Fund Equity (continued)

Property and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-50
Improvements other than buildings	5-50
Equipment	2-20

Due to Other Governments - Due to other governments represents amounts due to the primary government.

Compensated Absences - Component unit employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the component unit-wide and enterprise fund financial statements. A liability for these amounts is reported in enterprise fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the business-type activities will be paid primarily by the Water Fund.

Fund Equity - In the Enterprise Fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation. The component unit first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

F. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds and appropriates the amount deemed necessary for each of the different component unit offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the component unit is based upon one major class of expenditures known as the business-type activities, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department.

The component unit does not budget for the sewer and solid waste funds. These funds are budgeted for at the primary government level. The component unit is only the collecting agent for the primary government.

The following is a comparison of expenditures to budget:

	<u>Actual</u>	<u>Amended Budget</u>	<u>Variance with Final - Budget Positive (Negative)</u>	<u>Actual % of Amended Budget</u>
Expenditures:				
Business-type activities	\$ 1,482,394	\$ 1,743,440	\$ 261,046	85%

(2) Deposits and Investments

Deposits

The component unit's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds. At June 30, 2004, primary government deposits per component unit records totaled approximately \$1,711,812.

Investments

The component unit is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(2) Deposits and Investments (continued)

The component unit's investments are categorized to give an indication of the level of risk assumed by the component unit at year end. The component unit has \$301,546 at June 30, 2004 in CDs at various banks.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Medical Benefits	Water Fund	\$ <u>97,218</u>

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 240,094	\$ 25,000	\$ -	\$ 265,094
Construction in progress	<u>163,481</u>	<u>179,300</u>	<u>(163,481)</u>	<u>179,300</u>
Total capital assets not being depreciated	<u>403,575</u>	<u>204,300</u>	<u>(163,481)</u>	<u>444,394</u>
Capital assets being depreciated:				
Buildings, wells and towers	1,481,802	-	-	1,481,802
Vehicles	255,175	32,793	-	287,968
Computers	-	9,267	-	9,267
Equipment	-	93,084	-	93,084
Pipes and hydrants	6,051,882	660,521	-	6,712,403
Meters	<u>322,642</u>	<u>-</u>	<u>-</u>	<u>322,642</u>
Total capital assets being depreciated	<u>8,111,501</u>	<u>795,665</u>	<u>-</u>	<u>8,907,166</u>

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(4) Capital Assets (continued)

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Less accumulated depreciation for:				
Buildings, wells and towers	556,282	33,307	-	589,589
Vehicles	98,962	24,448	-	123,410
Computers	-	1,569	-	1,569
Equipment	-	6,314	-	6,314
Pipes and hydrants	841,479	128,744	-	970,223
Meters	<u>140,537</u>	<u>15,372</u>	<u>-</u>	<u>155,909</u>
Total accumulated depreciation	<u>1,637,260</u>	<u>209,754</u>	<u>-</u>	<u>1,847,014</u>
Total capital assets being depreciated, net	<u>6,474,241</u>	<u>585,911</u>	<u>-</u>	<u>7,060,152</u>
Business-type activities capital assets, net	<u>\$ 6,877,816</u>	<u>\$ 790,211</u>	<u>\$ (163,481)</u>	<u>\$ 7,504,546</u>
Total depreciation, Business-type activities:				
Water		<u>\$ 209,754</u>		

(5) Retirement System

The Department contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Department is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Department's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$29,188, \$30,775, and \$30,519, respectively, which were equal to the required contributions for each year.

(6) Deferred Compensation Plan

The Department offers its employees a deferred compensation plan under Internal Revenue Code Section 457. The plan allows Department employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

MARION WATER DEPARTMENT

Notes to Financial Statements

June 30, 2004

(6) Deferred Compensation Plan (continued)

The Department deposits all amounts of compensation deferred under the plan to the fiduciary designated by the employee.

(7) Compensated Absences

Department employees accumulate vacation and sick leave hours for subsequent use or, in the case of the accumulated vacation pay, for payment upon termination, retirement or death. The accumulations are not recognized as disbursements by the Department until used or paid. The Department's approximate liability for earned compensated absences payable to employees at June 30, 2004 was as follows:

Sick leave	\$ 22,483
Vacation	<u>23,290</u>
Total	<u>\$ 45,773</u>

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2004. Sick leave is payable when used. Retiring employees who have accumulated at least 30 days of sick leave are entitled to one and one-half months regular pay as severance pay.

(8) Related Party Transactions

The component unit bills and collects for sewer and garbage services provided for the primary government to its residents. During the year ended June 30, 2004, the component unit collected and remitted to the primary government \$2,193,597 for sewer and \$972,090 for garbage service. Fees paid to the component unit by the primary government during the year to pay for this service totaled \$63,802.

(9) Local Government Risk Pool

The component unit has chosen to participate in the primary government's risk financing program for risks associated with the employee's health insurance plan. The component unit self-funds health insurance claims arising from the component unit's employees to a stop-loss insured amount of \$30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The total cost of these benefits is transferred from the Water Fund based upon the number of employees and the type of plan (single or family) chosen by the employee. Amounts charged are approximately \$209 per month single and \$522 per month family which is an amount based on past claim history. The amount transferred will be adjusted over a reasonable period of time so that the Medical Benefits Fund receipts and disbursements are approximately equal. Claims paid totaled \$76,312 during the year ended June 30, 2004. At June 30, 2004, the component unit's share of estimated claims incurred but unpaid was approximately \$18,000 based upon an actuarial determination.

June 30, 2004

(9) Local Government Risk Pool (continued)

The component unit obtains its workers' compensation coverage through the primary unit, which is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). IMWCA is a local government risk sharing pool established for the purpose of managing and funding workers' compensation claims against its members. Members are assessed an annual fee based on respective claims history, number of employees and the risk category of each employee. During the year ended June 30, 2004, the component unit remitted \$9,088 to IMWCA for the workers' compensation premiums arising from component unit employees.

(10) Risk Management

The component unit is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(11) Commitments

For retirees with a minimum of 30 years of service, the component unit provides single premium health insurance coverage for a period not to exceed three continuous years, then up to \$100 per month toward health insurance coverage until the retiree is eligible for Medicare/Medicaid coverage. At June 30, 2004, there were three employees with over 30 years of service eligible for these benefits upon retirement. The component unit's contributions for these benefits are financed on a pay-as-you-go basis and totaled \$11,073 for the year ended June 30, 2004.

This information is an integral part of the accompanying financial statements.

Board of Trustees
Marion Water Department
Marion, Iowa

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion Water Department as of and for the year ended June 30, 2004 which collectively comprise Marion Water Department's basic financial statements and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion Water Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Marion Water Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item I-A-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion Water Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Marion Water Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cedar Rapids, Iowa
September 2, 2004

MARION WATER DEPARTMENT

Schedule of Findings

Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted incompatible duties being performed in the cash receipts and cash disbursement functions.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the component unit review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The Water Department has segregated duties where possible and does utilize rotation of duties to compensate for this weakness in its controls. The Water Department will review its present internal control procedures and will consider additional review procedures where practical.

Conclusion - Response accepted.

MARION WATER DEPARTMENT

Schedule of Findings

Year Ended June 30, 2004

Part II: Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the component unit. The maximum deposit amounts in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of component unit officials or employees were noted.
- II-E-04 Business Transactions - We noted no business transactions between the component unit and component unit officials or employees.
- II-F-04 Bond Coverage - Surety bond coverage of component unit officials and employees is in accordance with statutory provisions. The amount of coverage should continue to be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board of Trustees Minutes - We noted no transactions that we believe should have been approved in the council minutes and were not.
- II-H-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the component unit's investment policy.

MARION WATER DEPARTMENT

Audit Staff

This audit was performed by:

William E. Murray, CPA, Audit Partner

Andrew J. Johnson, Senior Associate

Justin P. Zimmerman, Associate

